

Message Text

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DRAFTED BY FED RES NORMAND BERNARD

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TO AMCONSUL AMSTERDAM IMMEDIATE

C O N F I D E N T I A L STATE 137704

FOR THE HONORABLE ARTHUR F BURNS, CHAIRMAN FEDERAL RESERVE BOARD

E.O. 11652: GDS

THE DOLLAR WAS ESSENTIALLY UNCHANGED TODAY ON A WEIGHTED AVERAGE BASIS. STERLING REMAINED UNDER CONSIDERABLE PRESSURE EARLIER TODAY, WITH SPOT STERLING REACHING A LOW OF 226.60 IN LONDON. REPORTS OF MIDDLE EAST CONVERSIONS OF STERLING, PRIMARILY INTO MARKS, REMAINED THE PRINCIPAL SOURCE OF DOWNWARD PRESSURE, BUT THE ANNOUNCEMENT BY THE NATIONAL UNION OF RAILWAY WORKERS THAT THEY PLANNED TO GO AHEAD WITH A STRIKE ALSO APPEARED TO CONTRIBUTE TO STERLING'S WEAKNESS EARLIER IN THE DAY. THE POUND SUBSEQUENTLY RECOVERED AND WAS QUOTED AT 228.55 IN NEW YORK THIS AFTERNOON, SOMEWHAT ABOVE ITS NEW YORK CLOSE OF YESTERDAY. THE BANK OF ENGLAND DID NOT INTERVENE TODAY. EXCHANGE RATES FOR CONTINENTAL CURRENCIES WERE MIXED BUT LITTLE CHANGED AGAINST THE DOLLAR FROM YESTERDAY. GOLD ROSE 75 CENTS TO \$165.50 AT THE SECOND FIXING.

DOMESTIC BOND MARKETS HAD A SLIGHTLY EASIER ATMOSPHERE TODAY, APART FROM MUNICIPALS WHICH REMAINED QUITE FIRM. SETTLEMENT OF NEW YORK CITY'S FINANCIAL PROBLEMS CONTINUED TO EXERT A STRENGTHENING INFLUENCE ON MUNICIPALS. TREASURY BILL RATES AGAIN EDGED LOWER, AS THE MARKET CONTINUED TO FOCUS ON LARGE SEASONAL REDEMPTIONS OF BILLS BY THE TREASURY DURING JUNE. THE 3-MONTH ISSUE FELL 6 BASIS POINTS FURTHER TO 4.86 PER CENT. FEDERAL FUNDS
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TRADED MOSTLY AT AROUND 5-1/8 PER CENT DESPITE THE DESK'S

ABSORPTION OF SOMEWHAT OVER \$1 BILLION IN RESERVES. FOR THE STATEMENT WEEK ENDED YESTERDAY, THE FUNDS RATE AVERAGED 5.15 PER CENT. STOCK PRICES DECLINED SOMEWHAT IN MODERATE TRADING, APPARENTLY REFLECTING CONTINUING CONCERNS ABOUT THE FUTURE PRICE OF OIL. THE DOW JONES INDUSTRIALS WERE DOWN 5.24 TO A LEVEL OF ABOUT 815.

DATA PUBLISHED TODAY FOR THE MONTH OF MAY INDICATE GROWTH RATES OF 11.3 AND 13.3 PER CENT FOR M-1 AND M-2, RESPECTIVELY. FOR JUNE DATA AVAILABLE SO FAR SUGGEST GROWTH RATES THAT ARE SUBSTANTIALLY HIGHER THAN WERE PROJECTED EARLIER.

SALES OF NEW SINGLE-FAMILY HOMES BY MERCHANT BUILDERS ROSE 25 PERCENT IN APRIL TO A SEASONALLY ADJUSTED ANNUAL RATE OF 580,000 UNITS, THE HIGHEST RATE SINCE JULY 1973. THE UNUSUALLY LARGE INCREASE IN APRIL REFLECTS, IN PART, THE EFFECTS OF THE NEW-HOME-PURCHASE TAX CREDIT WHICH WENT INTO EFFECT AT THE END OF MARCH. THE STOCK OF UNSOLD NEW HOMES DECLINED ONLY SLIGHTLY, BUT THE END OF APRIL LEVEL REPRESENTED A REDUCTION TO 8 MONTHS SUPPLY AT THE CURRENT SALES RATE. SALES OF EXISTING HOMES ALSO INCREASED IN APRIL, BUT ONLY 6 PER CENT; THIS WAS THE THIRD CONSECUTIVE MONTH-TO-MONTH INCREASE IN SALES FOR THESE HOMES. RETAIL SALES, SEASONALLY ADJUSTED, IN THE WEEK ENDING JUNE 7 DECLINED 1.6 PER CENT, ABOUT THE SAME AS IN THE PRECEDING WEEK. IN THE MOST RECENT WEEK THE DECREASE WAS CONCENTRATED IN A LARGE DROP IN SALES AT NONDURABLE GOODS STORES IN CONTRAST TO MORE MODERATE CUTBACKS AT BOTH DURABLE AND NONDURABLE GOODS STORES IN THE PRECEDING WEEK. THESE DECLINES FOLLOW INCREASES, PARTICULARLY SHARP IN NONDURABLES, IN WEEKLY SALES DURING THE MIDDLE PART OF MAY. IN THE FOUR WEEKS ENDING LAST SATURDAY TOTAL SALES WERE UP 1.4 PER CENT FROM THE PRECEDING FOUR WEEK PERIOD, WITH THE GAIN AT NONDURABLE GOODS STORES.

THE MAJOR MATERIAL CAPACITY UTILIZATION RATE ROSE TO AN ESTIMATED 70.5 PER CENT IN MAY. THIS WAS THE SECOND MONTH OF RISE AND THE RATE WAS UP FROM A LOW OF 68.5 PER CENT IN MARCH. CAPACITY UTILIZATION IN MAY DROPPED FURTHER FOR DURABLE GOODS MATERIALS BUT ROSE FOR NONDURABLE GOODS MATERIALS. THE IRON AND STEEL RATE DECLINED SHARPLY IN MAY AND IS EXPECTED TO BE OFF FURTHER IN JUNE.

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